

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 /113 W
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R 061112Z JUN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0567

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 09099

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JUNE 5)

REF.: BONN 8296

1. FINANCE MINISTER APEL IN PUBLIC STATEMENTS THIS WEEK STRESSED THAT IT WAS FOOLISH TO DISCUSS HIGHER TAXES AT THE PRESENT TIME OF RECESSION. HE INDICATED, HOWEVER, THAT HE WILL SEEK AN INCREASE IN TAXES WHEN ECONOMIC ACTIVITY HAS TURNED UP. MINISTRY OF ECONOMICS STATE SECRETARY SCHLECHT MEANWHILE HAS LABELED THE MINISTRY'S REVISED 1975 GNP GROWTH PROJECTION OF ZERO PERCENT AS,
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IF ANYTHING, SOMEWHAT ON THE OPTIMISTIC SIDE. GERMAN

INDUSTRY REPRESENTATIVES THIS WEEK REJECTED CALLS FOR A NEW GOVERNMENT EXPENDITURE PROGRAM TO STIMULATE THE ECONOMY, BUT ARGUED THAT MEASURES TO REDUCE THE TAX BURDEN OF GERMAN INDUSTRY IN THE MEDIUM OR LONGER RUN WERE NECESSARY. (THERE ARE NOW AGAIN SERIOUS DOUBTS WHETHER THE CORPORATE TAX REFORM WILL BE ENACTED EARLY ENOUGH TO PERMIT IT TO COME INTO FORCE ON JANUARY 1, 1977.)

2. MONEY SUPPLY: DURING APRIL THE NARROWLY DEFINED MONEY SUPPLY (M1) INCREASED BY DM 2.4 BILLION WHILE THE WIDELY DEFINED MONEY SUPPLY (M2) DECLINED BY DM 3.5 BILLION. THE DIFFERENT DEVELOPMENT OF M1 AND M2 WAS APPARENTLY DUE TO A SHIFT FROM TIME DEPOSITS TO SIGHT AND SAVINGS DEPOSITS. AT THE END OF APRIL 1975 M1 WAS 12.4 PERCENT ABOVE LAST YEAR WHILE M2 WAS 2.2 PERCENT LOWER. THE EXTENSION OF BANK CREDITS TO THE PRIVATE SECTOR OF THE ECONOMY DECLINED BY DM 2.7 BILLION WHILE CREDITS TO PUBLIC AUTHORITIES INCREASED BY DM 3.1 BILLION. MONEYS INVESTED IN SAVINGS ACCOUNTS AND SAVINGS BONDS REACHED A NEW MONTHLY RECORD. THIS WAS IN PART ATTRIBUTABLE AGAIN TO A SHIFT FROM TIME DEPOSITS (WITH MATURITIES UP TO 4 YEARS) TO SAVINGS DEPOSITS DUE PRINCIPALLY TO THE DECLINE IN INTEREST RATES OF TIME DEPOSITS. (IN THE FIRST FOUR MONTHS OF 1975 INVESTMENTS IN SAVINGS ACCOUNTS, SAVINGS BONDS AND TIME DEPOSITS REACHED A RECORD OF DM 13.8 BILLION AS COMPARED WITH DM 10.5 BILLION ONLY IN THE FIRST FOUR MONTHS OF 1974 AND DM 11.2 BILLION IN THE RECORD SAVINGS YEAR OF 1972). DURING APRIL THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1974
	APRIL	MARCH APRIL

BANK LENDING TO DOMESTIC NON-BANKS	0.4	6.5	3.5
NET EXTERNAL ASSETS OF BANKS (INCL. BUNDESBANK)	/	3.4	0.6 4.1
SAVINGS DEPOSITS AND SAVINGS BONDS	9.6	5.7	0.8
TIME DEPOSITS (1) AND OUT-			
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STANDING BANK BONDS (2)	2.1	1.6	1.9
OFFICIAL ASSETS HELD AT CENTRAL BANK	-3.5	-0.6	-2.9
OTHERS	0.9	-5.0	-1.2

MONEY SUPPLY (M2)	-3.5	-4.6	6.6
OF WHICH: CURRENCY IN CIRCULATION			
AND SIGHT DEPOSITS (M1)	2.4	4.4	1.9

TIME DEPOSITS WITH

MATURITIES UP TO

4 YEARS -5.9 -9.0 4.7

(1) WITH MATURITIES OF 4 YEARS AND MORE.

(2) EXCLUDING BONDS HELD BY BANKS.

3. REDUCTION IN INTEREST RATES ON SAVINGS DEPOSITS:
FOLLOWING THE HALF PERCENT REDUCTION IN THE REDISCOUNT
AND THE LOMBARD RATE (SEE BONN 8296) THE DEUTSCHE BANK
AS THE FIRST GERMAN BANK REDUCED THE INTEREST RATE FOR

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 AGR-10 /113 W

----- 075811

R 061112Z JUN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0568

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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SAVINGS DEPOSITS WITH LEGAL PERIOD OF NOTICE (ONE MONTH)

FROM 4 1/2 TO 4 PERCENT AND ADJUSTED ACCORDINGLY INTEREST RATES FOR SAVINGS DEPOSITS WITH OTHER MATURITIES. IT IS EXPECTED THAT ALL GERMAN BANKS WILL SOON FOLLOW THIS STEP. THE DEUTSCHE BANK ALSO REDUCED INTEREST RATES FOR CONSUMER CREDITS ABOUT 1 PERCENT AND MORTGAGES BY 1/2 PERCENT.

4. BUNDESBANK FOREIGN POSITION: IN THE SECOND HALF OF MAY (MAY 16-31) THE BUNDESBANK'S FOREIGN POSITION DECLINED BY DM 0.2 BILLION TO DM 82.9 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 778 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 40 UNCLASSIFIED

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MILLION AND SDR HOLDINGS BY DM 78 MILLION. GROSS LIABILITIES DECLINED BY ABOUT DM 460 MILLION.

7. BANK LIQUIDITY: IN THE SECOND HALF OF MAY BANK LIQUIDITY DECLINED BY DM 5.0 BILLION. BASIC FACTORS REDUCING LIQUIDITY WERE A DM 1.1 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK, THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 2.1 BILLION) AND DM 1.5 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS (NET) REDUCED LIQUIDITY BY DM 0.3 BILLION. THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING REDISCOUNT BORROWINGS BY DM 2.2 BILLION AND LOMBARD BORROWINGS BY DM 2.8 BILLION.

6. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

		FORWARD DOLLARS		
		(DISCOUNT IN PCT.P.A.)		
	SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
MAY 28	DM 2.3285	-0.8	-1.3	
30	2.3465	-1.3	-1.5	
JUNE 2	2.3448	-1.5	-1.7	
3	2.3345	-1.0	-1.5	
4	2.3370	-1.0	-1.4	
5	2.3442	-1.5	-1.5	

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK WEAKENED AGAINST THE OTHER CURRENCIES. THE SWEDISH CROWN APPROACHED AGAIN ITS UPPER DEUTSCHEMARK INTERVENTION POINT.'

7. MONEY MARKET: THE GERMAN MONEY MARKET EASED AT THE BEGINNING OF JUNE WHEN THE 5 PERCENT REDUCTION IN MINIMUM RESERVE REQUIREMENTS RELEASING RESERVES OF DM 2.2

BILLION BECAME EFFECTIVE. DURING THE REPORTING WEEK
FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

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MAY 28	5.5-5.8	4.7-5.0	4.7-5.0
30	5.5-5.6	4.6-5.0	4.7-5.0
JUNE 2	5.2-5.5	4.7-5.0	4.7-5.0
3	5.0-5.3	4.7-5.0	4.7-5.0
4	4.5-4.8	4.6-4.9	4.6-4.8
5	4.0-4.5	4.5-4.8	4.5-4.8

8. BOND MARKET: DURING THE REPORTING WEEK FAZ AVERAGE

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SIL-01 AGR-10 /113 W
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R 061112Z JUN 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0569
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

	8 PERCENT	7 PERCENT	6 PERCENT
MAY 28	8.58	8.66	8.28
30	8.60	8.64	8.29
JUNE 2	8.5L	8.67	8.26
3	8.51	8.67	8.24
4	8.49	8.66	8.25
5	8.49	8.66	8.22

ON JUNE 9 THE FEDERAL GOVERNMENT WILL ISSUE A DM 660 MILLION LOAN (COUPON 8 PERCENT, ISSUE PRICE 98 3/4, UNCLASSIFIED

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MATURITY 8 YEARS NON-CALLABLE, YIELD TO MATURITY 8.22 PERCENT). THE COUPON OF THE LAST PUBLIC LOAN, A FEDERAL GOVERNMENT LOAN OFFERED ON MAY 21 (SEE BONN 8296) WAS 8 1/4 PERCENT, ITS YIELD TO MATURITY 8.34 PERCENT. THE LAST DOMESTIC 8 PERCENT LOAN WAS FLOATED IN DECEMBER 1972. THEREAFTER DOMESTIC LOANS WERE OFFERED AT HIGHER COUPONS (UP TO 10 PERCENT IN MID 1974 WITH A YIELD TO MATURITY OF 10.5 PERCENT). ON MAY 30 THE SWEDISH FIRM MO OCH DOMSJÖE (MODO) FLOATED A DM 50 MILLION LOAN (COUPON 9 PERCENT, ISSUE PRICE 99 1/4, AVERAGE MATURITY 6 1/2 YEARS). THE DEUTSCHE BANK ARRANGED THE PRIVATE PLACEMENTS OF IBRD BONDS OF DM 150 MILLION CARRYING A COUPON OF 8 1/4 PERCENT AND A MATURITY OF 7 YEARS NON-CALLABLE. THE DEUTSCHE GENOSSENSCHAFTSKASSE, THE CENTRAL INSTITUTION OF GERMAN COOPERATIVE BANKS, TOOK OVER ANOTHER DM 150 MILLION OF IBRD BONDS (COUPON 8 1/4 PERCENT) FOR PRIVATE PLACEMENT WITH DOMESTIC AND FOREIGN COOPERATIVE BANKS AND AFFILIATED BANKS. THE DM 100 MILLION LOAN OF THE NIPPON TELEGRAPH AND TELEPHONE PUBLIC CORPORATION (SEE BONN 8296) WILL CARRY A COUPON OF 8 1/4 PERCENT, AN ISSUE PRICE OF 99 AND A MATURITY OF 7 YEARS NON-CALLABLE. THE DEUTSCHE BANK ANNOUNCED THE ISSUE OF THE FOURTH DM LOAN OF THE GOVERNMENT OF MEXICO (DM 100 MILLION, COUPON 9 PERCENT, MATURITY 7 YEARS NON-CALLABLE).
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Message Attributes

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